

SENATE FINANCE COMMITTEE  
February 8, 2021  
9:02 a.m.

[9:02:52 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Lyman Hoffman  
Senator Donny Olson  
Senator Natasha von Imhof  
Senator David Wilson

MEMBERS ABSENT

Senator Bill Wielechowski

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget,  
Office of the Governor

SUMMARY

SB 68        APPROP: SUPP; REAPPROP; AMENDING; CBR

SB 68 was HEARD and HELD in committee for further consideration.

#sb68

SENATE BILL NO. 68

"An Act making supplemental appropriations, reappropriations, and other appropriations; amending appropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

[9:02:52 AM](#)

Co-Chair Stedman reviewed the meeting agenda.

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, provided a PowerPoint presentation titled "State of Alaska, Office of Management and Budget, FY2021 Senate Finance Supplemental Budget Overview, February 8, 2021" (copy on file). He began on slide 2, "FY2021 Supplemental Summary." The slide showed a summary of appropriation requests outside of HB 205, the operating budget passed during the 2020 legislative session. He explained that supplementals were additional needs for appropriation or authority to collect and expend funds that were not anticipated when the budget was passed the previous year. The summary included four categories, beginning with the fast-track supplemental introduced in December 2020. The fast-track supplemental included the most urgent items as well as some items related to appropriations that were not passed during the previous session due to the early adjournment [resulting from the COVID-19 pandemic].

Mr. Steininger reviewed the second section of the supplemental summary on slide 2. He explained that the SB 49 and SB 50 supplementals were primarily technical items relating to other appropriations in the governor's proposed operating and capital budgets for FY 22. The third section included SB 68 supplementals had been introduced the previous week and included items that did not have sufficient information to include in the fast-track in December and/or items with lower urgency. The fourth section pertained to FY 21 revised program legislative (RPL): items that had not been considered in the appropriation bill for FY 21 but were granted collection and expenditure through the RPL process. He explained that RPLs went before the Legislative Budget and Audit Committee primarily for collection of federal revenues.

Mr. Steininger reported that the total supplementals across all of the bills listed on slide 2 represented \$1.25 billion in unrestricted general funds (UGF) and \$1.45 billion in all funds.

[9:06:47 AM](#)

Co-Chair Stedman addressed members of the public watching the meeting and explained that the committee would silo the items into the proper fiscal year (FY 21 and FY 22) and

would aim to factor out the anomalies due to COVID-19 and other issues that in order to put a finer point on the structural deficit. He noted the supplemental numbers were large, but they included numerous anomalies.

Mr. Steininger reviewed slide 3 titled "Elements of Supplemental Bills" and restated some of the information he had provided on the previous slide.

SB 48 Supplementals - Fast Track

- This bill addresses high priority projects and completion of the FY2021 capital budget

SB 49 and SB 50 Supplementals in FY2022 Governor

- This bill includes technical supplemental items, primarily appropriations related to FY2022 budget changes.

SB 68 Supplementals

- This bill is the normal supplemental request for emergent needs

[9:08:45 AM](#)

Mr. Steininger directed attention to a spreadsheet included in members' budget binders titled "FY2021 Supplemental Bill Summary" (copy on file). He began with a request on line 3 to address to address a shortfall in School Finance and Facilities. He explained that the school bond debt program had been vetoed for FY 21. He detailed that the School Finance and Facilities section within the Department of Education and Early Development (DEED) relied on the appropriation to fund facilities activities above activities related to school bond debt reimbursement. The request for \$928,000 would go to support individuals doing facility condition work and school maintenance projects.

Mr. Steininger relayed lines 4, 6, 7, 9 were all related to a shortfall in Technical Vocational Education Program (TVEP) funding. He explained that the amount available for distribution in the program was \$1.7 million less than anticipated when the FY 21 budget had passed. The budget contained reductions associated with the distribution of the funding.

Senator von Imhof asked if the reduction was due to reduced program participants.

Mr. Steininger replied that he could not speak to the exact factor that reduced TVEP funding.

Co-Chair Bishop stated the reduction was due to the unemployment rate incurred the previous summer. He explained there had been fewer people working. He relayed an approximate three-tenths of a percent from the working wages of Alaskans went toward funding TVEP. He elaborated that the reduced number of workers, reduced the funds coming into the program. [Co-Chair Bishop made a clarifying remark related to the TVEP calculation multiplier at the end of the meeting.]

[9:11:48 AM](#)

Senator Olson asked if adjusting the amounts for the percentage of distribution would change the amounts in the supplemental request.

Co-Chair Bishop deferred the question to Mr. Steininger.

Mr. Steininger asked for verification that Senator Olson was asking if changing how the percentage distribution of TVEP funds was weighted between programs would change the numbers.

Senator Olson replied affirmatively.

Mr. Steininger answered that there would still be a reduction. He elaborated that the way the funds were allocated between TVEP programs was set in statute. He pointed to the spreadsheet and noted there was a much larger reduction to the University of Alaska and a smaller reduction to student and school achievement, which was based on the distribution percentage.

[9:13:07 AM](#)

Mr. Steininger moved to an increase in the Permanent Fund Dividend (PFD) Hold Harmless program on line 5. The fast-track supplemental proposed a completion of the FY 21 PFD payment; however, paying a second PFD payment would increase the need for the PFD Hold Harmless program, which ensured PFD recipients were not knocked off of public assistance programs. The request was \$13.5 million from the PFD Fund.

Co-Chair Stedman asked for verification there was an assumption that some legislative action would be taken.

Mr. Steininger replied that the item was associated with another item appearing later in the spreadsheet reflecting the deposit into the PFD Fund. He elaborated that the two items would be taken together.

Senator von Imhof asked for verification the \$13.5 million was not needed if the legislature did not act on the supplemental PFD.

Mr. Steininger responded in the affirmative.

Mr. Steininger moved to a \$750,000 appropriation for a COVID-19 related operational shortfall at the Alaska Vocational Technical Center (AVTEC) on line 8. The funding source was general funds because the program was experiencing a shortfall in revenue resulting from declining enrollment and the inability to provide in-person classes at the start of the pandemic. He clarified that the specific type of shortfall was not eligible for [federal] Coronavirus Relief Funds (CRF).

Mr. Steininger noted the next section of the spreadsheet pertained to capital items. He requested to skip the section because the capital items had been discussed in a Senate Finance Committee meeting the previous week.

Co-Chair Stedman agreed.

Mr. Steininger turned to page 3, line 34 and highlighted a \$6 million supplemental increment for the Alaska Psychiatric Institute (API). He noted there was a similar \$6 million increment in the FY 22 budget addressing the same need. There was a shortfall in revenues at API related to the anticipated ability to collect money through Medicaid and private billing, which had not come to fruition. He explained that additional direct support was needed to run the facility. He noted the administration's recommended funding source was from Alaska Mental Health Trust Authority (AMHTA) reserves.

Co-Chair Stedman asked why the item was included in the supplemental and not the FY 22 mental health budget.

9:16:57 AM

Mr. Steininger replied that the item was matched by a \$6 million request in the FY 22 budget as well. He clarified that the shortfall occurred in FY 21 and was anticipated to continue. He explained that the plans to find other revenue sources to help API did not come to fruition.

Senator von Imhof stated that the committee had received a letter from AMHTA. She recalled that AMHTA had been surprised about the administration's proposal to use \$6 million in AMHTA reserves. She asked if the entity had not anticipated the proposed use of its funding.

Mr. Steininger replied that he had been in receipt of the letter as well.

Senator von Imhof asked about the long-term effects of taking more than the annual allotment in AMHTA funds.

Mr. Steininger answered that OMB had looked at the amount of AMHTA reserves in addition to the principal held by the trust. He reported the reserves were significantly in excess of the trust reserve target of 400 percent. He noted the trust was currently holding in excess of 600 percent. The administration believed its recommendations were sustainable based on the reserve balance, but perhaps not in perpetuity. He explained that at a time when there were not sufficient state reserves and there were other areas of reserves, the administration believed it was a prudent recommendation as a possible fund source to meet the specified needs.

9:19:12 AM

Co-Chair Stedman queried the reserve targets for the state that the committee should be considering as it worked to fix the structural deficit.

Mr. Steininger replied that it was a difficult question to answer in a time when state revenues had been significantly below expenditures. He remarked that the state had been deficit drawing for almost a decade. He stated knowing the right amount of reserves depended on the future projection.

Co-Chair Stedman asked Mr. Steininger to get back to the committee with an answer. He believed there should be reserve targets. He highlighted concern at the table that the state's reserves had been drawn down by billions of dollars and the state was running out of the ability to maneuver. He referenced testimony from the Alaska Permanent Fund Corporation (APFC) that overdrawing the Permanent Fund would have significant long-term negative impacts on the fund structure, the future payment of the PFD, and on future PFD recipients. He believed the reserve targets were an integral part. He remarked there was clearly an opinion that AMHTA was in a strong reserve position and perhaps some would characterize it as over-reserved. He stated it could also go along with Alaska Housing Finance Corporation (AHFC). He referred to a proposal on the table to have AHFC assist the state General Fund in paying general obligation bonds.

Co-Chair Stedman noted that all arrows were pointing to a liquidity squeeze. He highlighted the need to clarify the magnitude of the squeeze in order to get out of the situation before it worsened in the coming years. He wanted OMB to interact with the legislature via the Legislative Finance Division or other to try to set reserve balance targets. He stated that zero and negative numbers did not work. There had been discussions the previous year on cashflow needs and the earlier drawing dates out of the Earnings Reserve Account (ERA) to the General Fund. The committee had talked about when the payments came across to the state out of the ERA.

Co-Chair Stedman stressed that the legislature needed as much information as possible on the savings targets. He stated that OMB would set the targets and the legislature would review them and try to work with OMB. He believed flying blind when running out of cash was foolish. He pointed to the importance of having the discussion in the building in order for elected officials and staff to understand the precarious position the state was quickly getting into.

Senator Olson remarked that Co-Chair Stedman brought up some important points to be considered. He wanted to know the reason for the current situation and what could be done to help. He remarked that in the recent past API had gone to a private contractor. He asked if it had helped or

hindered the situation. He wondered how it had impacted the \$6 million supplemental request.

9:23:41 AM

Mr. Steininger answered that the \$6 million supplemental request was not necessarily related to the shift to private contracted management for API. He stated that the shortfall was related to the ability to make certain types of claims through Medicaid. Currently, API was able to claim as a DSH [Disproportionate Share Hospital], which was a different rate than claiming as Medicaid.

Senator Olson clarified that he was in favor of the use of private contractors.

Co-Chair Stedman expected that mental health representatives would have their own positions to bring forward to the committee table once the mental health budget was discussed. He shared that he had asked Mr. Steininger to work with mental health to try to work out the differences of opinion in the budgets. Otherwise, it would be sorted out in committee. He hoped the two entities would come to an agreement.

Mr. Steininger moved to regular supplemental bill items beginning on page 4, line 42 of the spreadsheet. Line 42 related to the cost of transitioning state payroll to biweekly. He elaborated that the transition caused a 0.38 percent increase in state employee salaries, generating a cost of approximately \$4.8 million across state agencies. He detailed that the savings and benefits of transitioning to biweekly payroll fell within human resources and payroll processing under the Department of Administration. In order to ensure the cost was not borne by all of the agencies resulting in reductions, the administration had instituted a reduction in the rate that the Division of Personnel and Labor Relations charged agencies. He noted that savings related to biweekly payroll could not be implemented immediately. The supplemental request was the difference between a reduction in the rate by \$2 million and the savings implemented in the first year. He relayed that increased savings would occur as activities associated with a decreased workload were implemented and work was centralized.



Co-Chair Stedman remarked that the topic had been covered in detail the previous year.

[9:27:39 AM](#)

Mr. Steininger moved to line 43 related to a shortfall in revenue in some of the professional licensing programs resulting from a suspension in fee increases through the disaster declaration. The request of \$411,000 would ensure professional licensing boards did not fall into a deficit.

Senator von Imhof asked if there was a possibility to use some CARES Act funding because the item was COVID-19 related.

Mr. Steininger responded that the CARES Act had tight limitations on revenue replacement; therefore, the federal funds could not be used for the item.

Senator Wilson asked for a list of the impacted licensing programs.

Mr. Steininger confirmed that OMB would provide the information to the committee.

Co-Chair Bishop referenced Senator von Imhof's previous question and asked for verification that OMB would look at future incoming federal dollars as a possible fund source for the item in the future.

Mr. Steininger replied that it could be a possibility if there was additional federal relief that did not have the revenue replacement restriction. He noted that the state would have to wait to see what additional federal relief came forward.

Co-Chair Stedman asked if the \$411,700 would be paid back to the state treasury when things turned around. Alternatively, he asked if the funding was a grant to the licensing programs.

Mr. Steininger responded that as proposed, the item was a grant to ensure that boards would not go into a negative account balance as a result of suspended fee increases. As proposed, there was no intention of a payback.

Co-Chair Stedman referenced Senator Wilson's previous question and expressed intention to review which boards needed [financial] help. He stated the committee would make the call on whether to provide the funding. He highlighted that the Legislative Budget and Audit Committee looked at the account balances annually. He asked OMB to follow up on Senator Wilson's request for additional detail.

9:30:42 AM

Senator Olson shared that in his past experience on the state medical board, budget shortfalls were typically due to an increased number of complaints coming through. He was not aware of any uptick in complaints requiring boards to hire outside help. He asked if his analysis was incorrect.

Mr. Steininger replied that the projected shortfalls were based off of baseline spending projections by the Department of Commerce, Community and Economic Development and not necessarily due to an increase in activity or complaints.

Senator Olson stated his understanding that board members began meeting via videoconference as opposed to traveling to meet in person. He thought it meant there would be a decrease in the budget request for boards.

Mr. Steininger agreed that many of the boards had likely been reducing costs associated with travel and in-person meetings. He explained that the increment [on line 43] did not represent every board that had not been able to increase fees with a projected need for a fee increase. The increment only included boards that were operating on the margin without much of a surplus where the lack of a fee increase resulted in a negative account balance. He stated that despite any other cost reduction efforts, the boards had not been able to achieve a zero account balance with current fee collections.

Mr. Steininger moved to line 44 showing a \$70,000 supplemental need resulting from a delayed project. He expounded that the Department of Environmental Conservation (DEC) entered into a project to achieve energy savings in one of its facilities; however, the project had been delayed over the past year. Consequently, the savings the department thought it could achieve over the fiscal year did not come to fruition. He relayed that \$70,000 would

cover the additional cost of the debt service for energy efficiency savings that could not be covered in energy reductions over the remainder of the fiscal year.

Co-Chair Stedman asked if DEC was unable to absorb the cost within its budget.

Mr. Steininger replied affirmatively. He explained there was a mechanism that enabled state agencies to take on debt if the debt could be covered by the savings from energy efficiencies in state facilities. He explained it encouraged agencies to reduce their energy footprint in buildings and generate savings. He elaborated that due to the delay, the debt service cost was over the department's budget for energy costs and other amounts available. He relayed that the \$70,000 was less than the total additional cost. The department had analyzed other pots of money that could be used to cover most of the cost before requesting a supplemental.

[9:34:17 AM](#)

Mr. Steininger moved to lines 45 and 46 pertaining to unanticipated legal expenditures for DEC totaling ~\$350,000. He detailed that the costs were above the normal amount DEC paid to the Department of Law for legal services. Line 47 was \$590,000 for the Division of Elections within the Office of the Governor. The increment was primarily to match additional federal receipts received through the CARES Act for election security from the Help America Vote Act. He believed the federal funding required a 20 percent match for the \$3 million provided to the state. He noted the requested increment was slightly less than the 20 percent and the department was able to find the remainder of the funds to fulfill the match requirement. Line 48 was just under \$3 million and reflected an increase in the number of children placed into adoptions or permanent guardianships. He detailed that the Office of Children's Services (OCS) paid a stipend to adoptive parents up to a specified age of the child. The increment was primarily access to federal receipts to pay for some of the grants through the Title IV-E program. There was a small increment needed to match the funds.

Co-Chair Stedman asked if the number of children in foster care was increasing.

Mr. Steininger responded that the increment represented an increased number of children being placed into adoptions or permanent guardianships. He clarified it did not represent an increase in the number of children in foster care. He characterized the increment as a "good news" increase because it reflected kids going into permanent homes. He did not know the current statistics on the number of children in out of home placements in foster care. He noted that OCS tracked the number carefully.

Co-Chair Stedman asked Mr. Steininger to follow up with the data including a several year lookback. He was interested to see if the state was gaining ground on the issue. He remarked there were an alarmingly high number of children in custody or guardianship around Alaska.

9:37:20 AM

Senator von Imhof referenced an OCS bill passed a couple of years earlier that addressed the issue of making an effort to contact relatives. She wondered if there was any correlation between the policy implemented by the bill and the current situation. She suggested asking the question of the Health and Social Services subcommittee.

Co-Chair Stedman replied that the committee could ask the chair of the subcommittee to help with the question.

Senator Wilson relayed that his office had been working on situation. He noted there had been some technical glitches in the language of the [OCS] bill, HB 151. He was trying to determine a compromise by working with the department to overcome the technical glitch the bill had left out.

Mr. Steininger addressed a \$1.2 million increment pertaining to maintenance of effort for the state's Medicaid program operated through the Adult Public Assistance Program on line 49. He highlighted two years earlier there had been a move to reduce the maintenance of effort requirement; however, during the process it had been discovered that the method for calculating maintenance of effort was incorrect. He elaborated that the federal partners had pointed out an adjustment was necessary. He explained that the adjustment had resulted in a significant increase in cost. He detailed that the FY 21 budget had included an increase to Adult Public Assistance to compensate for the federal calculation. Since the new

calculation had been implemented, the cost was greater than when initially implemented the past year. The proposed increment on line 49 would true up the cost in order to meet the maintenance of effort requirement.

Co-Chair Stedman asked if it was a budgetary item the state had no control over and merely had to pay the bill.

Mr. Steininger answered, "Effectively, yes."

Senator von Imhof asked what calculation had been used to create the budget for FY 22 in order to avoid another supplemental in the future.

Co-Chair Stedman responded that the issue had been on the minds of the Division of Public Assistance staff when the FY 22 budget had been constructed. He remarked that there may or may not be a need for the administration to submit a budget amendment related to the calculation change as more information was received. He relayed that OMB would come back to the committee to further explain the calculation in more detail if needed.

Co-Chair Stedman asked Mr. Steininger to get back to Senator von Imhof during the subcommittee process. He highlighted that Senator von Imhof would chair the Health and Social Services subcommittee. The committee wanted to do everything possible to avoid supplementals. He stated if there was a cost, he wanted to recognize it and determine how to deal with it.

[9:41:12 AM](#)

Senator Wilson asked if line 49 reflected an increase to the [Adult Public Assistance] budget. He pointed out that OMB's changes showed a ~\$6 million reduction to Division of Public Assistance pertaining to telework and a reverse of positions to address a backlog, and reduction in postage related to online renewals.

Mr. Steininger replied that the items highlighted by Senator Wilson represented future savings and line 49 reflected an FY 21 item; therefore, the savings and expenditures did not net out. He noted that the Division of Public Assistance was a large division and Adult Public Assistance was a formula program within the division. The reductions the administration put forward for FY 22 were

related to the eligibility and field services side of the overall division. He believed it was necessary to look at the different areas separately and track the distinct costs separately.

Mr. Steininger addressed a \$1.2 million federal increase for the Department of Military and Veterans Affairs to cover maintenance costs at Army Guard facilities (on line 50) through federal partnership. Line 51 was a \$130,000 department-wide risk management position within the Department of Revenue (DOR) commissioner's office. He elaborated the position would look at areas within DOR that may have security vulnerabilities. The position would work in partnership with the Office of Information Technology, in addition to working on physical security. The idea was to prudently monitor any risks to the state's financial assets.

Co-Chair Stedman referenced a past Mustang [oil field] lending issue and asked if the position would review things of that nature.

Mr. Steininger replied that the risk management was more related to things like ransomware attacks locking access to finances and financial systems that other states had faced. He cited additional examples such as bad actors within the department or people trying to defraud the Permanent Fund Dividend system. He reported the department had seen increased activity attempting to penetrate the department's IT systems.

Co-Chair Bishop referenced the contractor Worldwide Technologies mentioned in the description on line 51. He asked if the entity was an in-state or out-of-state employer.

[9:44:51 AM](#)

Mr. Steininger replied that he did not have the information on hand.

Co-Chair Bishop queried the length of the contract.

Co-Chair Stedman asked Mr. Steininger to get back to the committee with the answers.

Mr. Steininger highlighted an adjustment to Alaska Permanent Fund Corporation (APFC) investment management fees on line 52. The increment was based on the corporation's updated projections of the total management fee costs for the current year. The corporation anticipated higher management costs given high returns over the past couple of months. He noted that management fees were based on performance.

Mr. Steininger skipped capital budget items that had been covered during a prior capital budget presentation. He moved to page 6, line 69 and highlighted a \$4 million multiyear appropriation for FY 21 to FY 25 for outside counsel and expertise on matters related to statehood defense.

Co-Chair Stedman asked which line Mr. Steininger was speaking to.

Mr. Steininger clarified that he was on line 69, page 6 of the spreadsheet.

Senator von Imhof asked if it made sense to get an idea of existing [statehood defense] cases. She asked if the committee would find the information interesting.

Co-Chair Stedman thought it would be beneficial to have a review on the topic at the subcommittee and committee levels. He understood there was a directional change within the Department of Environmental Conservation that may impact potential cases.

Senator von Imhof remarked that lawsuits had crept up over the last several years. She thought the committee should see a list of the lawsuits and receive a status update.

[9:47:41 AM](#)

Mr. Steininger answered he did not have the specific cases on hand. He believed someone from the Department of Law (DOL) was available online for questions.

Co-Chair Stedman requested to receive the detailed information in writing from DOL.

Mr. Steininger agreed to provide the information.

Mr. Steininger turned to line 70 showing just over \$1.2 billion (\$1,900 per person) for the completion of the FY 21 PFD. He noted a typo on the spreadsheet and clarified the increment was for FY 21.

Co-Chair Stedman asked if the fund source for line 70 was the ERA.

Mr. Steininger confirmed the funding source was the ERA.

Co-Chair Stedman relayed there would be a detailed discussion on the topic. He remarked there was concern from APFC on the impact to the ERA. He referenced an earlier comment by Mr. Steininger about the state's cash reserve policy. He wanted to take a look at the issue.

Senator Hoffman asked about the administration's timeline on the increment shown on line 70. He observed that the item was not included in the fast-track supplemental request.

Mr. Steininger clarified that lines 69 and 70 were both in the fast track supplemental bill request. The timeline on the additional PFD payment was viewed by the administration as urgent. He believed the PFD Division would be able to pay out a dividend within 45 to 60 days of passage and enactment of the increment.

Co-Chair Bishop remarked that earlier in the meeting there had been discussion about the administration's proposal to use funds from AMHTA because the fund had a surplus balance. He highlighted that the discussion had prompted Co-Chair Stedman to ask the administration what the state's cashflow balances should be. He remarked that APFC believed a four times draw was needed in the ERA to prevent an overdraft of the account. He wanted everyone to keep it in mind during the conversations in order to avoid overdrawing from the ERA.

[9:51:05 AM](#)

Mr. Steininger noted that lines 74 and 75 were capital budget items. He moved to line 79 on page 7 of the spreadsheet. Line 79 was technical and had been discovered when OMB had been looking at the various ways lapsing funds were used at the close of a fiscal year. He relayed there was statute associated with the topic that allowed unspent



money associated with personal services costs in the state to go into the state's catastrophic reserve fund. The fund was the buffer used for self-insurance in the state. He clarified that the action required an appropriation; therefore, the line cleaned up the need for the appropriation in the appropriation bill. The investigation into lapsing funds was related to line 80. Line 80 pertained to efficiencies in how state agencies providing services to other state agencies financed themselves (i.e., areas such as Office of Information Technology, Shared Accounting Services, and Facilities Management).

Mr. Steininger elaborated that in the past there had been a low level of predictability related to how the charges were distributed; the issue caused difficulty in management of direct-service programs and agencies. He clarified that OMB had been working over the past year to find a solution that would provide increased predictability and visibility into costs to drive down the cost over time. He explained that a smoothing mechanism was needed to account for any unforeseen circumstances. The administration was proposing the use of lapsed money from the previous year to provide for smoothing of the rates going forward.

Mr. Steininger pointed to an increment for the Medicaid program on line 81. The item enabled the state to carry forward lapsed Medicaid funding up to \$35 million into FY 22. He detailed that the item was associated with a reduction in FY 22 in the operating budget. The lapsed funding was a result of the enhanced Federal Medical Assistance Percentage (FMAP) rate through the course of the federal COVID-19 disaster. The enhanced rate was saving the state \$15 million to \$17 million per quarter in the state's share of Medicaid. He expounded that moving some of the saved funds forward allowed for a reduction in the FY 22 Medicaid budget. He added that it took quite some time to make changes in the Medicaid program. He explained that it signaled a target cost for the program going into FY 23 and gave the department time to negotiate with outside and federal partners on Medicaid services to be provided.

[9:55:07 AM](#)

Co-Chair Stedman asked why it would not be better to lapse the funding and do a straight appropriation into the following year's budget in order to have a clear view of expenditures. He remarked that the proposed maneuver would

understate the actual budget numbers for the following year and would cause confusion on the actual costs.

Mr. Steininger explained the proposal was meant to signal where the administration wanted the Medicaid program to be going into FY 23. He elaborated that it was about giving the Department of Health and Social Services (DHSS) a number to work for in order for all parties to understand the target. He stated that not providing an amount would put off the decision on how much money was available until the last minute and did not allow for advanced planning. He recognized the critique made by Co-Chair Stedman about accurately showing the Medicaid budget. He thought there needed to be transparency in the budget. He stated the goal of the proposal was to signal an FY 23 spend in the Medicaid program to assist with DHSS's efforts to find reductions over time.

Co-Chair Stedman communicated his desire for the committee to err on the side of transparency. He reasoned that failure to recognize what was going on would result in a jam. He recognized the concern highlighted by Mr. Steininger; however, he believed transparency superseded the concern. He remarked that he did not know how many years he had heard about budget reductions when actual expenditures were increasing (across multiple governors and legislators dealing with the operating budget). He clarified he was not speaking about the past several years when there had been major reductions in the operating budget. He stated it was a systemic problem that he wanted to get rid of.

Senator von Imhof referred to Mr. Steininger's mention of \$17 million for FY 22. Additionally, she referred to his statement about preparing for FY 23. She asked where the \$17 million came from. She wondered if it was already included in the operating budget.

Mr. Steininger replied that the \$15 million to \$17 million per quarter reflected the per quarter savings from the 6.2 percent enhanced FMAP. He clarified the enhanced FMAP was temporary and only extended through the term of the federal disaster declaration. He explained the savings would likely bleed into FY 22 but would not continue in perpetuity.

Senator von Imhof asked for verification that the savings from the enhanced FMAP were resulting in savings of \$15 million to \$17 million per quarter in FY 21.

Mr. Steininger responded affirmatively.

Senator von Imhof asked if the savings were reflected in any documents.

Mr. Steininger answered that the savings came from the \$35 million [in lapsed Medicaid funds] the administration proposed carrying forward into the following year. He relayed that when the supplemental had been put together in December, OMB did not know how long the enhanced FMAP would be extended. When the budget had been developed, the administration anticipated \$35 million in savings in the Medicaid program was a reasonable target for FY 23.

[9:59:50 AM](#)

Senator von Imhof asked where the \$35 million in savings was reflected in the spreadsheet.

Co-Chair Stedman echoed the need for budget clarity. He expressed the need to be careful with the item. He was expecting to see a \$200 million swing in the budget in a couple of days when the issue was unwound.

Mr. Steininger replied that the \$35 million reduction was not shown on line 81 because the language proposed by the administration pertained to excess money in Medicaid services up to \$35 million. He clarified the administration was not proposing to remove money from the Medicaid program midyear. The administration was anticipating savings at the end of the year. He elaborated that in order to show the \$35 million in savings on a report, it would mean restricting money out of the Medicaid program, which the administration was not proposing to do in FY 21. He noted that savings had been achieved through the FMAP enhancement; however, the administration did not want to overshoot and end up without sufficient funds at the end of the fiscal year. He explained that OMB did not show a negative number when it was not actually removing money from a program; the department still had access to the funds until the end of the fiscal year, but the administration did not expect the funds to be used.

10:01:39 AM

Senator Olson thought he had heard Mr. Steininger state there was a plan to reduce Medicaid services. He asked which services would be reduced.

Mr. Steininger replied that the administration did not have a proposal on specific services to change, which was the reason for the FY 23 target. He explained that the timeframe gave DHSS enough time to negotiate through the changes that could be made. He clarified that under the current COVID disaster and enhanced FMAP, no changes could currently be made to the Medicaid program. The administration did not believe the restriction would continue through the entirety of FY 22, but it remained to be seen how long the federal disaster declaration would continue.

Senator Olson asked for verification that the administration planned on decreasing Medicaid services.

Mr. Steininger responded affirmatively. He stated that as the department developed the plans working with partners, it would be able to identify areas it had found where savings and efficiencies could be made.

Co-Chair Bishop remarked that hospitals were watching the budget item and wanted to understand it going forward.

10:03:47 AM

Mr. Steininger moved to amended language for the distribution of cruise ship head tax dollars on line 82. He detailed that the language from the previous year did not update the calendar year for distribution; therefore, the change updated the date to the correct year. Additionally, due to the significant reduction in head tax receipts, the number had been adjusted. The -\$21.3 million on the spreadsheet reflected the reduction in receipts over the last calendar year.

Co-Chair Stedman thought the committee needed to look at the commercial vessel passenger tax because there may be some over expenditures. He commented on the apparent lack of ships anticipated in the current year. He wanted to ensure the available funding was not over appropriated for the coming year.

Mr. Steininger agreed that when the FY 21 budget had been appropriated, it had been assumed there would be some cruise ship traffic toward the end of the season.

Co-Chair Stedman stated that the committee and OMB would work together on the issue, which was impacting the entire state.

10:06:49 AM

Mr. Steininger addressed line 83, which utilized \$30 million of a \$75 million appropriation to DHSS to capitalize the Disaster Relief Fund. He clarified there had been a \$75 million appropriation to DHSS the previous year to respond to the COVID pandemic. He detailed that when the appropriation had been made, the amount of incoming federal funds had been unknown. The department had been able to avoid utilizing the pot of appropriated general funds and had used federal relief funds. The administration was proposing to deposit \$30 million of the remaining funds into the Disaster Relief Fund instead of allowing all of the funding to lapse back into the General Fund. He explained that the Disaster Relief Fund currently had a low unobligated balance and there were coming calls on the fund for work related to prior disasters.

Co-Chair Stedman asked where the extra funds would end up if action was not taken.

Mr. Steininger replied that the increment was a reappropriation of existing appropriated UGF.

Co-Chair Stedman clarified that a more transparent method would be to allow the funds to return to the General Fund. The funds could then be appropriated from the General Fund.

Mr. Steininger responded that because the \$75 million appropriation had been for relief from a specific disaster, depositing the funds into the Disaster Relief Fund would be more of a "rescoping" of the original purpose. He asserted that rescoping and redeploying the funds for more generalized disaster relief was not necessarily a wholly new appropriation.

Senator von Imhof stated her understanding there was \$75 million in unspent funding in the Disaster Relief Fund and the increment would reappropriate \$30 million into the fund for use on any disaster (e.g., earthquake or wildfire). She asked about the remaining \$45 million.

Mr. Steininger answered that the administration had not proposed to redeploy the remaining \$45 million. He elaborated that there were still several months remaining in the fiscal year and there was not complete clarity on whether DHSS would need to utilize the funding for a COVID-related cost. The administration believed it was more prudent to allow the money to be available for COVID relief if needed. The funding would lapse to the General Fund if it was not used.

10:09:40 AM

Mr. Steininger looked at line 84 showing a deposit of \$12.8 million into the Capital Income Fund. He detailed that a handful of capital projects had been completed under budget; therefore, the administration proposed depositing the remaining values into the Capital Income Fund for use on deferred maintenance.

Co-Chair Stedman asked for verification that most of the amounts were under \$1 million with the exception of a couple that were around \$3 million.

Mr. Steininger agreed that most of the increments were smaller dollar values with the exception of a couple with more material values.

Senator von Imhof asked where the individual increments [remaining from finished capital projects] currently resided. She wondered whether the money that would be swept into the Capital Income Fund was currently spread out across various municipalities or within the Department of Transportation and Public Facilities (DOT). She understood the accounting was there but wondered whether the actual cash had been verified.

Mr. Steininger answered, "Generally speaking, yes." He explained that when OMB put together reappropriations of capital projects, there was significant work with DOT to verify the funding. There was a process and investigation done by the department. He elaborated that often projects

finished several years earlier showed up on a reappropriation because it took time to ensure the books were closed. The state's Comprehensive Annual Financial Report (CAFR) included the increments as obligations to state funds, but the funds were no longer needed. The governor's budget reflected the transaction as removing authority from the [original] programs and depositing the money into another fund.

Co-Chair Stedman informed the public that the legislature had designated the Capital Income Fund as funding to go to deferred maintenance.

[10:12:42 AM](#)

Mr. Steininger noted that lines 88 and 89 were capital items that had been discussed at a previous meeting. Line 93 was a special appropriation for the Morse settlement between the Disability Law Center of Alaska and DHSS. The item totaled \$7.4 million in general funds and an anticipated federal match of \$4.5 million. He elaborated that the item pertained activities related to psychiatric evaluations of individuals including individuals placed in hospitals outside of the state's control. He explained the federal match pertained to Disproportionate Share Hospital payments.

Co-Chair Bishop asked for verification the lawsuit came after the governor had vetoed some behavioral health funding the previous year. He asked if that was the reason for the increment.

Mr. Steininger replied that money related to the settlement had been added to the budget the previous year; however, the settlement had not been finalized at the time. He explained that the funds had been vetoed because the administration wanted to ensure the amount included in the budget matched the amount designated in the final settlement.

Mr. Steininger moved to line 94 reflecting five other judgements, settlements, and claims against the state totaling \$366,000.

Co-Chair Stedman looked at the Recall Dunleavy v. State of Alaska item under line 94. He asked for verification the item involved a payment of \$197,000.

Mr. Steininger replied in the affirmative.

Co-Chair Stedman asked if the increment was subject to veto.

Mr. Steininger answered that any appropriation in the budget was subject to veto; however, the administration had proposed the payment of the item.

Co-Chair Stedman observed that all of the judgements, settlements, and claims under line 94 were large amounts. He assumed there were many small judgements, settlements, and claims as well. He asked for detail.

10:15:35 AM

Mr. Steininger responded that the items included in line 94 were the only judgements, settlements, and claims that had reached the point of payment at present. He relayed that the administration would introduce a budget amendment if another judgement or settlement arose prior to the end of session.

Co-Chair Stedman asked if the members' detailed budget binders included more detail on each of the settlements.

Mr. Steininger confirmed there was documentation associated with each of the settlements to explain what had been contested and what had been settled.

Co-Chair Stedman informed the public that settlements were delivered to the legislature as the appropriating body on an annual basis for payment authorization. He relayed that occasionally the amounts were large. He recalled there had been a settlement several years back that had gone on for 20 years and had been in the multiple millions of dollars. He noted that line 94 pertained settlements the state had lost totaling \$366 million [thousand]. He asked about the cases the state won.

Mr. Steininger clarified the amount was \$366,000. He addressed the question about settlements the state won. He explained that depending on settlement terms, the funds were deposited into the General Fund or appropriated to a specific purpose if specified. He cited a Volkswagen diesel



lawsuit related to air quality where funds had come in. He explained that specific appropriations had been put forward related to how the funding was spent due to spending restrictions. He noted that many settlements went into the General Fund as revenue.

Senator Olson looked at the settlement pertaining to Alaskans for Better Elections under line 94. He thought the group was a private entity.

Mr. Steininger answered that Alaskans for Better Elections was an entity against the state. He clarified that the group was not a state entity.

Senator Olson asked if the state was paying costs associated with Meyer, Holmes, Weddle & Barcott, P.C. for the specific settlement.

Mr. Steininger responded that the \$47,000 would go to Alaskans for Better Elections.

[10:19:00 AM](#)

Mr. Steininger noted that the committee had previously discussed capital items on lines 98 and 99. He pointed to the bottom row on page 8 of the spreadsheet showing a total of \$1.25 billion UGF and \$1.4 billion in all funds.

Co-Chair Stedman asked whether \$1.2 billion was the largest supplemental budget in the state's history.

Mr. Steininger answered that he would have to look at historical information to determine the answer. He noted the significant item included in the supplemental was the completion of the PFD payment from the previous year.

Co-Chair Stedman remarked on the large size of the supplemental budget. He asked OMB to follow up on some of the committee's questions and to work with DOL to ensure everyone was on the same page with the same information.

Co-Chair Stedman thanked Mr. Steininger for his presentation. He looked forward to working with him on OMB's target of cash availability the state should have on hand. He recognized there was a proposal by the administration to allow short-term borrowing to help fund budgetary shortfalls. He surmised there was a concern that

the past practice of being able to cash flow internally was being questioned. The committee would work with OMB on the issues going forward.

SB 68 was HEARD and HELD in committee for further consideration.

Co-Chair Stedman discussed the following schedule for the remainder of the week. He stated that there would be many meetings on the CARES Act funding. He shared that the subcommittee process would begin in the current week. He explained that when DHSS subcommittee work was complete, there would be a conversation in a future Senate Finance Committee meeting.

Co-Chair Bishop corrected a comment that he made earlier and clarified that the TVEP calculation multiplier was 0.16 percent.

#

ADJOURNMENT

[10:25:40 AM](#)

The meeting was adjourned at 10:25 a.m.